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## RECENT DEVELOPMENTS IN THE LIFE INSURANCE BUSINESS

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Conditions are ever changing. The question under consideration, however, is whether in the life insurance business since 1906 they have changed for the better or for the worse. Enough time has not elapsed to establish authoritative facts, but there are indications which should be thoroughly and carefully considered in order that the future of life insurance may have whatever benefit there is to be derived therefrom.

The recent financial depression has had a marked effect upon the business of life insurance. The cause is in dispute. Financial authorities, however, agree that the immense destruction of capital through the Boer War, the Japanese-Russian War, the San Francisco earthquake, and other disasters, was the fundamental cause of the break of one of the weakest links in the financial chain of the world.

The great system of life insurance is one of the strongest sections of the chain, but it had a link weakened by mismanagement in a few of the companies. This link has been removed and a new one put in its place. The question now before us is, have the changes as a whole resulted in any impairment of the business, or are they for its betterment. They were designed to be for its betterment, but are they? New insurance laws have been passed in most of the states of the Union, and such radical changes made that the most experienced men hesitate even to venture an opinion.

As an example, a few of these laws may be mentioned: Discrimination in matters of rates against the colored men is prohibited when it is a statistical fact that there is a material difference in the longevity of races. In at least one state, no matter what the contract provisions may be, suicide, even though immediately after issuance of policy, and deliberate and with fraudulent intent cannot be a bar to recovery. In another state the recom-

mentations of the medical examiner are final, even though he may have conspired with the applicant to perpetrate a fraud on the company. Another state imposes a penalty of twelve per cent for exercising the constitutional right of defending a claim believed to be unjust. In a number of states, laws have been enacted which prevent removal of a case to the United States courts, while others undertake to regulate the details of management with requirements that are impractical, expensive and even dangerous. In the State of Wisconsin, twenty-one companies unwilling to incur the risk of impracticable laws, voluntarily withdrew from the state. Twenty-seven life companies withdrew from Texas because of the unjust and oppressive tax and deposit laws. Fourteen states have enacted statutory provisions for life policies. Some of these provisions conflict with those of other states, and render difficult interstate business, which is essential to a proper average.

The only recent improvement noted in legislation is in the line of reducing the too burdensome tax on life companies. The companies now pay for taxes, fees, licenses and cost of supervision more than \$12,000,000 per annum. This tax is the equivalent of 2.25 per cent of the premium income. In 1890 it amounted to 1.4 per cent, and in 1908 it had increased to 2.3 per cent. It is generally conceded that the tax rate should not exceed one per cent of the premium income, and this should include the tax of one per cent on surplus recently imposed by the United States Government. In Germany the life companies pay only twenty-four cents in taxes, against \$2.26 in America. In Canada the ratio is a trifle over one per cent of the premium income; in Australia less than 1.5 per cent. However, the indications are that policyholders are waking up to the fact that they are paying the tax, and are demanding that their representatives in the several legislatures remedy the injustice.

December 31, 1904, the statements of the life companies, numbering ninety-two—having \$12,539,499,890 insurance in force—showed that a trifle over fifty-three per cent of the income was disbursed in expenses, payment of losses, surrender values, etc., while in December, 1908, the number of companies had increased to 170, with \$14,540,781,439 insurance in force, and the disbursements represented fifty per cent of the income, or a gain of about three per cent. This indicates an improvement, but the

fullest analysis would not at this time disclose the actual facts. It may be, and probably is, largely due to the effect of medical selection of the seventy-eight new companies which have written all their business since 1904, and hence a very small portion of their business is beyond the effect of medical selection. Again, it may be due, to some extent, to the recent retrenchment in expenses incident to the restrictive laws, which is responsible for the large reduction in business of the New York State companies. Again, the business of the seventy-eight young companies, not old enough to have many surrender values, neutralized the effect of the business in the older companies in which the increased amount paid for surrendered and purchased policies was fifteen million dollars more in 1908 than in 1907; or the reverse, to some extent, is due to the liberalizing of contracts in favor of the individual as against the aggregate, the effect of which is questionable and uncertain. Indeed, it will require the lapse of at least another decade before an analysis can be made with any degree of certainty as a guide for the future.

If we take individual companies, which are affected differently by changed conditions, we will find that those that have been able to reduce the expense of business-getting, have been enabled to liberalize their contracts to meet both the letter and the spirit of the laws enacted, all of which would seem to be to the advantage of policyholders. It is, however, a question which time alone will enable one to answer truly, whether laws and conditions which make possible, if they do not encourage, fraud upon life insurance companies, that prescribe and limit conditions regarding the investment of assets, the sale of securities, the loaning of reserve to policyholders, limiting the amount of business a company may do, limiting the amount of surplus that it may maintain for the protection of policyholders, etc., are, after all, for the best interests of policyholders.

The life insurance companies in the United States have about three and one-quarter billions of assets, and over thirteen billions of insurance in force. This insurance is carried by about twenty millions of persons.

While the general outlook of business conditions in life insurance is favorable, especially in view of the improved conditions of business in general throughout the country, it is not by any

means certain that the changes in recent years have been for the permanent good of the business.

### *State or Government Insurance*

The economic and social conditions of recent years have given promise of an experiment in some form of state or government insurance. Mr. William Jennings Bryan, former presidential candidate, in April, 1905, made this statement in a periodical: "I believe in state insurance, in the state government conducting an insurance business on a basis where the premiums would cover all expenses, and at the same time give insurance to the masses at absolute cost. I advocate issuance by the state of both life and fire policies."

Paternalism has crept into the laws of a number of states, the effect of which is yet to be determined. Massachusetts has enacted a savings-bank insurance feature, which has had strong support, and which, we are glad to say, has been established on a scientific basis, but from a practical point of view, it will probably show little better results than the forms of government insurance as established in New Zealand, France and other countries. Notwithstanding the many advantages secured to the New Zealand life insurance scheme by the government, private companies have more than held their own, and the government scheme is, in comparison, on the wane. In Great Britain a plan introduced by Mr. Gladstone, which makes every post office in the nation an agent, has languished, and has hardly been a factor in the insurance business. The French government established a department July 11, 1868. The insurance in force in the department, December 31, 1908, represented \$1,300,000 insurance, or hardly enough to be a reasonable amount for a month's business of an average American company. In order to increase the business, the government reinsured some mutual societies, but in this it has already had a disastrous experience. While the premium income in one year on the reinsured business was \$47,000, the losses for the same period amounted to \$45,000, with no accumulation for the future.

The National Civic Federation made labor insurance a part of its program for the annual meeting held on December 15, 1908, in the subject: "How may the employee and his family be protected against financial stringency in case of accident, illness or death?" Shall the plan followed in England, or shall the Massachusetts

voluntary savings bank annuity plan; or shall the state or the employer; or the state, employer and employee, jointly, as in Germany, be adopted? The discussion did not result in anything definite, but was "decidedly favorable to some form of state insurance." Consideration was given to some form of state insurance in Wisconsin, Massachusetts, Texas, Illinois, Florida, and in New York as far back as 1905; and later in Michigan, Tennessee, Virginia, Kansas, and in some other states, but no substantial progress has been made with it. "A strong tendency, however, exists toward retirement funds, industrial pension funds, employers' relief associations, etc., all of which are commended, provided they are based upon sound actuarial principles."

"The Standard," of Boston, in 1908, said, "The tendency of the recent reform in life insurance legislation is to fossilize the business. The public has infinitely more to gain from competition in insurance by companies conducted by private enterprise than from the dry rot of any state system of insurance."

In Great Britain, where insurance is much older than in this country, by reason of which the impractical has largely been eliminated, the policy of "publicity and freedom," has been found to give the best results. Under the laws of England the company management is restricted as follows:

Directors of a company cannot avail themselves of their position to enter into beneficial contracts with the company; nor can they buy property and then sell it to the company at an advanced price. . . . Directors cannot receive commissions from other parties on the sale of any of the property of the company; and generally, they cannot deal for their own advantage with any part of the property or shares of the company. . . . Upon similar principles a court of equity converts a party who has obtained property by fraud into a trustee for the party who is injured by that fraud.

Aside from the foregoing restrictions, which prevent managers from having interests antagonistic to the interests of policyholders, details are left to be worked out through competition, "publicity and freedom." There is no legal standard of solvency, as we have in this country, and a method of computing reserve is not provided by law, but publicity must be given to the method adopted by the company. Instead of pursuing plans which within the last half century have been found to be entirely satisfactory in Great Britain, the disposition in this country, from an insurance

point of view, has been to control and regulate by law the minutest details.

The business depression in recent years, from which the country has, for the most part, recovered, and the revival of business in general, have had their economic lessons, which will prove beneficial to the life insurance business. Rebates, primarily responsible for many wrongs and misdeeds, have practically ceased. Improvements have been made in policy contracts, and in many of the details of the business, but much of the legislation has fixed and rendered inflexible conditions over which the companies can exercise little or no control—like the rise and fall of flowing streams—that it is calculated ultimately to injure the business. For example, the surplus that a company may have is limited by law; the loan and surrender values, together with the rate of interest on loan values, are fixed by law; and whenever such values and rate conflict with the financial and commercial conditions prevailing in the country, trouble is sure to follow. Such legislation cannot be modified or repealed too soon for the general good of the business.